

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 18 – 22 October 2010, African stock markets showed mixed performance, while the stock markets in the U.S. and Europe edged up as improving earnings offset the uncertainty about global currency markets ahead of the G-20 meeting in South Korea. Among the bullish African stock markets, the Ghana Stock Exchange recorded the largest gains of 2%, while those of Morocco, Uganda, and Kenya posted moderate increases of between 1 % and 1.5%, and South Africa recorded a marginal gain of 0.2%. In contrast, the stock markets in Nigeria, Mauritius, Egypt, and Côte d'Ivoire posted minor losses of up to 1%.

Equity Focus

Nigeria: The stock market closed the week on a bearish note with the NSE All-Share Index falling by 0.4%. While banking stocks gained 0.6%, food and beverages lost 2.5%. The rise in banking stocks was driven by the announcement of the Central Bank of Nigeria that the Asset Management Company of Nigeria (AMCON) would buy bad debts from the banks starting in November.

South Africa: The All Share Index rose slightly by 0.2% over the week. Stocks barely moved as nervousness prevailed

before the G-20 meeting in South Korea, during which World leaders will seek agreement on a common approach to manage currency, trade, and macroeconomic imbalances.

1.2 Commodity Markets

Crude Oil (Brent): The price of Brent crude oil fell by 1% to USD 80.4 per barrel over the week. The decline was driven by the strengthening of the U.S. dollar and the increase of interest rates by the People's Bank of China in order to prevent overheating of its booming economy.

Cotton: The price of cotton rose by 6% over the week on concern over damage of crops by a hailstorm in Texas, the biggest U.S. cotton growing state.

Gold: The price of gold fell by 3.3% over the week, heading for the biggest weekly loss since July, as a stronger dollar boosted speculation that the precious metal's rally to a record this month was overdone.

1.3 Exchange Rates

The majority of African currencies weakened against the US dollar, which appreciated against the Euro over the week, lifted by China's interest rate increase and the U.S. Treasury Secretary's announcement that the United States would not engage in competitive currency devaluation.

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“The International Monetary Fund (IMF) projects a broad-based economic growth of 5 % in 2010 and 5½ % in 2011 for Sub-Saharan Africa ...”

“Botswana raised its economic growth forecast for 2010 from 5.0% to 7.9% as the result of a recovery in the mining industry ...”

Thirty five African currencies fluctuated within a range of $\pm 2\%$, with the vast majority depreciating against the US dollar. The largest depreciation of 2% was registered by the South African Rand, after the country's central bank announced that monetary policy would continue to accommodate fiscal policy, a measure designed to boost the fragile recovery of the economy. Other currencies that saw losses of more than 1% included the Egyptian Pound, the Zambian Kwacha, the Comoros Franc, and the Botswana Pula. Fourteen African currencies appreciated by less than 1.0%. Continuing the trend of depreciation, the Tanzanian Shilling recorded gains of 1.5% vis-à-vis the U.S. dollar.

2. Regional Developments

Africa: The International Monetary Fund (IMF) released the October 2010 Regional Economic Outlook for Sub-Saharan Africa. It projects a broad-based economic growth of 5% in 2010 and 5½% in 2011. The IMF's African Department commented that the region's resilience owes much to sound economic policy implementation before and during the 2007–09 global financial crisis. This allowed country authorities to use fiscal and monetary policies nimbly to dampen the adverse effects of the sudden shifts in world trade, prices, and financial flows. Domestic demand in the region is expected to remain strong in 2010 and 2011. Nevertheless, the global financial crisis has left a legacy of elevated unemployment in some sub-Saharan African countries. And because of the fragile nature of the global recovery, important downside risks remain. The IMF has recommended that the focus of policy needs to shift toward rebuilding the policy buffers that served so well during the crisis. In particular, expansionary fiscal policies will need to be tempered to make sure that public finances return to a sustainable path and public debt levels remain manageable. Besides, relatively low growth rates recorded in the West African Economic and Monetary Union (WAEMU) could be enhanced by stronger policy environments

and political stability, and by robust fiscal frameworks for directing resources towards priority spending needs.

3. Countries in Focus

Algeria: The Bank of Algeria announced that higher world oil prices pushed Algeria's earnings from oil and gas exports up by 38.3% in the first six months of 2010, while the exported volume remained relatively stable, increasing only by 1.7 % compared to the first six months of 2009.

Botswana: The world's largest diamond producer has raised its economic growth forecast for 2010 from 5% to 7.9% as a result of a recovery in the mining industry and investments in power and water. The Government also cut its budget deficit forecast for 2010/11 to 9% of GDP from an earlier estimate of 12.2%. It also projects economic growth of 7.9% for 2010, up from earlier forecasts of 5%.

Egypt: SODIC, Egypt's third-biggest listed property developer reported that a growing middle-class of Egyptians is pushing demand for commercial and retail space. SODIC used to steer away from middle income housing units which were economically less attractive.

Ghana: The International Monetary Fund has revised downward its estimates for Ghana's oil income in 2011, projecting the 2011 oil revenue earnings at 3% of GDP compared to an earlier estimate of 5%. The IMF now sees them barely covering the cost of this year's pay deal in its large public sector. The Government is implementing a so-called "single spine salary structure" aimed at putting all public sector workers on the same pay scale, inflating the existing heavy burden on the budget.

“Mauritius expects inward foreign direct investment (FDI) to grow by almost 40 % this year versus 2009...”

“The Bank of Namibia trimmed the repo rate by 25 basis points to 6.75 % in a move to counter the risks to domestic growth stemming from the uncertain global economic outlook.”

Kenya: The Government expects the economy to expand by about 6% in 2011 on the back of growing investor confidence and a global economic recovery while it projects 5% growth for the whole year of 2010. The government revised a previous forecast of 4.5% growth for 2010 following 5.4% growth in the second quarter.

Mauritius: The Government expects inward foreign direct investment (FDI) to grow by almost 40% this year compared to 2009, exceeding previous forecasts. Mauritius, one of Africa's most prosperous and stable economies, markets itself as a bridge between Africa and Asia. But the global downturn curbed investment flows in 2009, notably into the luxury real estate sector.

The government reported that the trade deficit widened by 33.3% in August from a year earlier. Imports rose 23.4 % from a year ago, mainly due to an increase in purchases of petroleum products, while exports increased 15.9% on the back of higher shipments of manufactured goods.

Namibia: The Bank of Namibia trimmed the repo rate by 25 basis points to 6.75% effective from October 21, bringing the total rate cuts since December 2008 to 375 basis points. The reduction of the base rate for the first time since June 2009 was a move to counter the risks to domestic growth stemming from the uncertain global economic outlook.

Nigeria: The Central Bank of Nigeria announced that Nigeria's foreign exchange reserves rose marginally to USD 34.7 billion by mid-October from USD 34.6 billion at the end of last month, enough to finance more than a year of imports. Nigeria had run down its foreign exchange reserves, partly in support of the Naira in the recent weeks amid high demand for dollars from fuel and rice importers.

Rwanda: The Rwanda Utilities and Regulatory Agency (RURA) reported that the country's mobile phone market expanded by 14% in the third quarter as operators cut tariffs amid growing competition. The central-eastern African

nation, which had 3.6 million subscribers at the end of September, is targeting 6 million subscribers by 2012.

South Africa: The Reserve Bank expected the country's economic recovery to remain fragile. Prevailing growth rates are deemed insufficient to have a marked impact on unemployment. The Reserve Bank also expressed concerns about the Rand, which has gained about 28 % against the U.S. dollar since the beginning of 2009, adding, however, that there were no guarantees intervention in the market would work.

Tunisia: The Government has cut its economic growth estimate for 2010 to 3.7% from the previous forecast 4%. However, it expects growth to accelerate to 5.4% in 2011 as the farming sector recovers and the services sector accelerates, creating 81,000 jobs compared to 74,000 jobs expected to be created this year. As a result, the unemployment rate would fall to 13.1%.

4. Development Partnerships

AfDB-Libya: The African Development Bank (AfDB) and the Libyan Export Promotion Council (LEPC) launched the institution's first project in Libya. The project, a technical assistance activity with the Libyan Export Promotion Center, is financed with a USD 747,000 grant from the Bank's Middle Income Country (MIC) Trust Fund. The Center is one of the key players in the country and acts as a catalyst in the country's efforts to diversify its production and export base.

5. Summary

During the week of 18 – 22 October 2010, African stock market performance was mixed. In commodities, prices of minerals fell while those of crops rose. The majority of African currencies weakened vis-à-vis the U.S. dollar. Favorable developments over the week include growth acceleration in Kenya and Botswana, increasing revenues and foreign reserves due to the oil price increase in Algeria and Nigeria, and increasing FDI in Mauritius. Negative developments include a widening trade deficit in Mauritius, fragile growth in South Africa and downgraded growth prospects in Tunisia.

Appendix Table 1: Stock market movements – Week ending on 22 October, 2010

<i>Stock Markets</i>						
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (22-10-2010)	Weekly % change (22-10-2010)		Year-to-date % Change
				Week under review	Previous week	Dec 31 - Oct 22
Côte d'Ivoire	BRVM Composite Index	BRVM CI	6,886	▼ -0.91	▲ 1.52	▲ 18.8
Egypt*	CASE 30 Index	CASE30	18,973	▼ -1.06	▲ 0.00	▲ 9.6
Ghana	Ghana All Share	GSE	13,757	▲ 1.99	▲ 0.61	▲ 23.2
Kenya	Nairobi SE Index- NSE 20	NSE 20	15,178	▲ 1.13	▲ 0.12	▲ 44.0
Mauritius	Mauritius AllShares	SEMDEX	5,364	▼ -1.41	▲ 4.09	▲ 10.9
Morocco	Casa All Share Index	MASI	15,684	▲ 1.75	▲ 2.12	▲ 18.0
Nigeria	NGSE All Share Index	NGSE	39,361	▼ -0.36	▲ 5.49	▲ 20.0
South Africa	All Share Index	JALSH	719,796	▲ 0.17	▲ 1.41	▲ 8.9
Tunisia	Tunis se Tnse Index STK	TUNINDEX	3,185	▼ -0.01	▼ -2.42	▲ 25.6
Uganda*	Uganda SE All Share index	USE	5,432.7	▲ 1.52	▲ 2.50	▲ 61.1
Others						
USA	Dow Jones Industrial	DJ Index	3,509,740	▲ 0.49	▲ 0.51	▲ 6.6
France	CAC 40 Index	CAC40	987,096	▲ 1.08	▲ 1.71	▼ -1.7
Japan	Nikkei 225 Index	N225	2,336,038	▼ -0.77	▼ -0.92	▼ -10.6

* Value at end of 21 October, 2010

Appendix Table 2: Exchange rate movements – Week ending on 22 October, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (22-10-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Oct 22			
Africa								
Algeria	Algerian Dinar	DZD	▲	0.90	▼	-0.85	▼	-0.7
Angola	New Kwanza	AON	▼	-0.28	▼	-0.19	▼	-3.6
Botswana	Pula	BWP	▼	-1.02	▲	0.93	▲	2.6
Burundi	Burundi Franc	BIF	▲	0.05	▼	-0.14	▲	1.0
Cape Verde	Escudo	CVE	▼	-0.60	▲	0.08	▼	-7.0
Comoros	Comoros Franc	KMF	▼	-1.03	▲	0.25	▼	-3.7
Congo. Dem. Rep. of	Congolese Franc	CDF	▼	-0.36	▲	0.01	▼	-12.0
Djibouti	Djibouti Franc	DJF	▲	0.08	▲	0.00	▼	-2.3
Egypt	Egyptian Pound	EGP	▼	-1.27	▲	0.09	▼	-4.9
Ethiopia	Birr	ETB	▼	-0.07	▼	-0.08	▼	-22.7
Gambia. The	Gambian Dalasi	GMD	▼	-0.74	▼	-0.69	▼	-7.6
Ghana	New Cedi	GHS	▲	0.08	▼	-0.62	▲	0.6
Guinea	Guinea Franc	GNF	▼	-0.28	▼	-0.04	▼	-29.8
Kenya	Kenyan Shilling	KES	▲	0.63	▲	0.09	▼	-5.2
Liberia	Liberian Dollar	LRD	▲	0.69	▲	0.69	▼	-2.8
Libya	Libyan Dinar	LYD	▲	0.69	▼	-1.84	▼	-0.3
Madagascar	Ariary	MGA	▲	0.36	▲	0.15	▼	-1.7
Malawi	Kwacha	MWK	▼	-0.14	▼	-0.22	▼	-3.3
Mauritania	Ouguiya	MRO	▲	0.37	▲	0.87	▼	-6.4
Mauritius	Mauritius Rupee	MUR	▼	-0.66	▲	0.79	▲	1.3
Morocco	Dirham	MAD	▼	-0.32	▲	0.65	▼	-1.7
Mozambique	New Metical	MZN	▼	-0.69	▲	0.28	▼	-24.2
Nigeria	Naira	NGN	▼	-0.69	▲	0.28	▼	-1.2
Rwanda	Rwandan Franc	RWF	▲	0.62	▲	0.02	▼	-1.8
São Tomé & Príncipe	Dobra	STD	▼	-0.47	▲	2.48	▼	-10.3
Seychelles	Seychelles Rupee	SCR	▲	0.92	▲	0.95	▼	-7.6
Sierra Leone	Leone	SLL	▼	-0.13	▼	-1.93	▼	-4.9
Somalia	Somali Shilling	SOS	▲	0.02	▲	0.11	▼	-7.3
South Africa	Rand	ZAR	▼	-1.98	▲	1.29	▲	6.9
Sudan	Sudanese Pound	SDG	▲	0.40	▼	-1.47	▼	-1.6
Tanzania	Tanzanian Shilling	TZS	▲	1.54	▼	-1.60	▼	-10.3
Tunisia	Tunisian Dinar	TND	▼	-0.19	▲	0.70	▼	-4.4
Uganda	Uganda Shilling	UGX	▼	-0.74	▼	-0.52	▼	-16.1
Zambia	Zambian Kwacha	ZMK	▼	-1.27	▲	3.23	▲	0.1
CFA zone Countries	CFA Franc	XOF	▼	-0.26	▲	0.67	▼	-2.1
Others								
Europe	Euro	EUR	▼	-0.74	▲	0.94	▼	-2.5
Japan	Yen	JPY	▲	0.19	▲	1.44	▲	13.6

Source: AfDB Statistics Department, October 2010